

**REPORT OF THE AUDIT OF THE  
INTERIM MCCREARY COUNTY  
SHERIFF**

**For The Period January 1, 2007 Through February 19, 2007**



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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE INTERIM MCCREARY COUNTY SHERIFF**

**For The Period January 1, 2007 Through February 19, 2007**

The Auditor of Public Accounts has completed the interim McCreary County Sheriff's audit for the period January 1, 2007 through February 19, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$8,736 from the prior period, resulting in excess fees of \$0 as of February 19, 2007. Revenues decreased by \$289,673 from the prior period and allowable expenditures decreased by \$221,030. These decreases were due to the interim Sheriff serving only for the period of January 1, 2007 through February 19, 2007. The prior audit period was for all of calendar year 2006.

#### **Report Comments:**

- The Interim Sheriff Had A Deficit Of \$2,873 In His Official Account
- The Interim Sheriff Expended \$1,639 From His Official Account For Disallowed Expenditures
- The Interim Sheriff Should Have Been Paid In Accordance With The Maximum Authorizations Set By The Department For Local Government
- The Interim Sheriff Should Have Submitted An Annual Settlement To The Fiscal Court
- The Interim Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive  
The Honorable Randy Waters, Interim McCreary County Sheriff  
The Honorable Gus Skinner, McCreary County Sheriff  
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the interim Sheriff of McCreary County, Kentucky, for the period January 1, 2007 through February 19, 2007. This financial statement is the responsibility of the interim Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the interim Sheriff for the period January 1, 2007 through February 19, 2007, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 28, 2008 on our consideration of the interim Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.



The Honorable Blaine Phillips, McCreary County Judge/Executive  
The Honorable Randy Waters, Interim McCreary County Sheriff  
The Honorable Gus Skinner, McCreary County Sheriff  
Members of the McCreary County Fiscal Court

That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Interim Sheriff Had A Deficit Of \$2,873 In His Official Account
- The Interim Sheriff Expended \$1,639 From His Official Account For Disallowed Expenditures
- The Interim Sheriff Should Have Been Paid In Accordance With The Maximum Authorizations Set By The Department For Local Government
- The Interim Sheriff Should Have Submitted An Annual Settlement To The Fiscal Court
- The Interim Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

This report is intended solely for the information and use of the interim Sheriff and Fiscal Court of McCreary County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 28, 2008



MCCREARY COUNTY  
 RANDY WATERS, INTERIM SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2007 Through February 19, 2007

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	1,170
State Fees For Services:		
House Bill 452	\$	1,081
Fee Claims	8,555	
Delinquents	205	9,841
		<hr/>
Circuit Court Clerk:		
Sheriff Security Service	50	
Fines and Fees Collected	460	510
		<hr/>
County Clerk - Delinquent Taxes		85
Commission On Taxes Collected		11,189
Fees Collected For Services:		
Auto Inspections	1,410	
Accident and Police Reports	24	
Serving Papers	2,522	
Carrying Concealed Deadly Weapon Permits	260	
Arrest Fees From Other Counties	20	
10% Add-On Fees	1,063	5,299
		<hr/>
Other:		
Miscellaneous		126
Interest Earned		35
Borrowed Money:		
State Advancement	18,292	
Personal Loan	5,000	23,292
		<hr/>
Total Revenues		<hr/> 51,547 <hr/>

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY  
 RANDY WATERS, INTERIM SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2007 Through February 19, 2007  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 10,226

Clerk Gross Salary 3,420

Employee Benefits-

Employer's Share Social Security 1,791

Employer's Share Retirement 2,444

Employer Paid Health Insurance 2,421

Unemployment Insurance 948

Worker's Compensation 1,554

Materials and Supplies-

Office Materials and Supplies 130

Uniforms 749

Equipment 45

Auto Expense-

Gasoline 4,974

Maintenance and Repairs 112

Other Charges-

Bond 102

Miscellaneous 25 \$ 28,941

Debt Service:

Repayment of Personal Loan 5,000

Funds Due to Incoming Sheriff (Note 4) 9,811

Total Expenditures 43,752

Less: Disallowed Expenditures

Extended Health Insurance Premiums 1,614

Donation 25 1,639

Total Allowable Expenditures 42,113

Net Revenues \$ 9,434

Less: Statutory Maximum 9,434

Excess Fees Due Fiscal Court at Completion of Audit \$

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENT

For The Period January 1, 2007 Through February 19, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at February 19 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for the period January 1, 2007 through February 19, 2007 services
- Reimbursements for the period January 1, 2007 through February 19, 2007 activities
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in for the period January 1, 2007 through February 19, 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENT  
For The Period January 1, 2007 Through February 19, 2007  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The interim Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the interim Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The interim Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). For the period January 1, 2007 through February 19, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Repayment of State Advancement

The Interim Sheriff received a state advancement of \$18,292. Since these funds constituted a lien against the 2007 tax collections, this debt was assumed and repaid by the current sheriff's office. Funds totaling \$9,811 that would normally be paid to the fiscal court as excess fees will be transferred from the interim sheriff to the current sheriff to help offset the debt assumed and paid by his office.

MCCREARY COUNTY  
 RANDY WATERS, INTERIM SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

For The Period January 1, 2007 Through February 19, 2007

Assets

Cash in Bank		\$	19,942
Deposits in Transit			130
Collected Receivables:			
Commissions On Taxes	\$	7,036	
State Fee Claims		8,555	
KLEFPF Pay		1,170	
Sheriff Security Service		1,081	
Auto Inspections		268	
Accident Reports		2	
Delinquent Taxes		205	
Civil Summons		220	
Sheriff Services		50	
Interest		17	
Carrying Concealed Deadly Weapons Permits		40	
Miscellaneous		7	18,651
Uncollected Receivables			
Tax Commissions		214	
Interest due from tax account		17	231
Total Assets			38,954

Liabilities

Outstanding Checks			16,246
Paid Obligations:			
Deputies Salaries		2,540	
Health Insurance		2,421	
Retirement		79	
Personal Loan Repaid		5,000	
Sheriff Expense Reimbursements		3,754	
Automobile Expenses		996	
Uniforms		695	
Office Supplies and Expenses		183	
Bond Payment		102	
Total Paid Obligations			15,770
Unpaid Obligations:			
Due Current Sheriff			9,811
Total Liabilities			41,827
Total Fund Deficit as of February 19, 2007		\$	<u>(2,873)</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive  
The Honorable Randy Waters, Interim McCreary County Sheriff  
The Honorable Gus Skinner, McCreary County Sheriff  
Members of the McCreary County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the interim McCreary County Sheriff for the period January 1, 2007 through February 19, 2007, and have issued our report thereon dated May 28, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the interim McCreary County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the interim McCreary County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the interim McCreary County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Interim Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the interim McCreary County Sheriff's financial statement for the period January 1, 2007 through February 19, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Interim Sheriff Had A Deficit Of \$2,873 In His Official Account
- The Interim Sheriff Expended \$1,639 From His Official Account For Disallowed Expenditures
- The Interim Sheriff Should Have Been Paid In Accordance With The Maximum Authorizations Set By The Department For Local Government
- The Interim Sheriff Should Have Submitted An Annual Settlement To The Fiscal Court

This report is intended solely for the information and use of management, the McCreary County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

May 28, 2008

## COMMENTS AND RECOMMENDATIONS



MCCREARY COUNTY  
RANDY WATERS, INTERIM SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2007 Through February 19, 2007

STATE LAWS AND REGULATIONS:

The Interim Sheriff Had A Deficit Of \$2,873 In His Official Account

The interim Sheriff had a deficit of \$2,873 in his official fee account for the period of January 1, 2007 through February 19, 2007. This deficit was the result of disallowed expenditures of \$1,639 and an overpayment of the interim Sheriff's salary totaling \$1,234. We recommend the interim Sheriff deposit personal funds of \$2,873 to eliminate this deficit.

*Interim Sheriff's Response:* None.

The Interim Sheriff Expended \$1,639 From His Official Fee Account For Disallowed Expenditures

The interim Sheriff expended \$1,614 to purchase health insurance coverage for one of his former employees for the period of March 1, 2007 through June 30, 2007. This individual was no longer an employee of the Sheriff's office during this period. In addition, the interim Sheriff made a charitable contribution of \$25 from his official account. Expenditures for charitable contributions and salary supplements are subject to an audit comment relating to KY Const. S 173; KRS 61.190 (repealed and replaced with KRS 522.050) and 132.601(1); and Funk v. Milliken, 317 S.W.2d 499(KY 1958).

*Interim Sheriff's Response:* None.

The Interim Sheriff Should Have Been Paid In Accordance With The Maximum Authorizations Set By The Department For Local Government

The interim Sheriff's salary was not paid in accordance with the salary schedule set by the Department for Local Government (DLG). The interim Sheriff received \$10,668 as salary for the period of January 1, 2007 through February 19, 2007. The salary set by DLG for this period is \$9,434. This results in an overpayment of \$1,234 to the interim Sheriff for the period of January 1, 2007 through February 19, 2007. We recommend the interim Sheriff redeposit \$1,234 of personal monies into his official account to be in compliance with the salary approved by DLG.

*Interim Sheriff's Response:* None.

MCCREARY COUNTY  
RANDY WATERS, INTERIM SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period January 1, 2007 Through February 19, 2007

STATE LAWS AND REGULATIONS (Continued):

The Interim Sheriff Should Have Submitted An Annual Settlement To The Fiscal Court

During the course of the audit, it was noted that the interim Sheriff did not present his annual settlement to the Fiscal Court for the period of January 1, 2007 through February 19, 2007. KRS 134.310(5) states, "In counties containing a population less than seventy thousand (70,000), the sheriff shall file annually with his final settlement:

- (a) A complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered as commissions for collecting state, county, and school taxes;
- (b) A complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses."

The interim Sheriff should have presented an annual settlement for the period of January 1, 2007 through February 19, 2007 to the Fiscal Court to be in compliance with KRS 134.310(5).

*Interim Sheriff's Response:* None.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Interim Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

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The interim Sheriff's office lacked an adequate segregation of duties over receipts and disbursements. The interim Sheriff's bookkeeper collected payments from customers, prepared and made the deposits, and posted the receipts and disbursements ledgers, prepared monthly bank reconciliations, and signed checks.

Adequate segregation of duties would have prevented the same person from having a significant role in the processing, recording, and reporting of receipts and disbursements. The interim Sheriff should have segregated these duties or implemented compensating controls to offset this lack of segregation of duties and documented those compensating controls by initialing reviews.

*Interim Sheriff's Response:* None.

